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# 中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

## CONTINUING CONNECTED TRANSACTION:

### LEASING OF OFFICE PREMISES AND CAR PARKS

On 26 July, 2004, Air Macau entered into the Tenancy Agreement with the Landlords for the leasing by Air Macau from Landlords of the Premises for use by Air Macau to carry out its commercial activities and to support the carrying out of such activities.

The Tenancy Agreement was negotiated on an arm's length basis between the parties and their terms are determined on an arm's length basis. The Directors (including independent non-executive Directors) considered that the Tenancy Agreement has been entered into on normal commercial terms and are fair and reasonable so far as the Company and its shareholders are concerned.

Each of the Landlords is an indirect wholly owned subsidiary of CNAH. Air China, a non-wholly owned subsidiary of CNAH, is the controlling shareholder of the Company. Each of the Landlords is therefore an associate of Air China and is a connected person under Chapter 14A of the Listing Rules. The Tenancy Agreement is regarded as a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

The Company's failure to issue a public announcement concerning the continuing connected transaction has constituted a breach of Rule 14A.34 of the Listing Rules. The Stock Exchange has indicated to the Company that it reserves the rights to take appropriate action against the Company and the Directors in respect of such breach of the Listing Rules.

#### TENANCY AGREEMENT

Date: 26 July, 2004

Parties: Air Macau, as tenant  
Easy Advance and Wise Advice, as landlords

#### Premises Leased

- 16 car parks in the basement of the Building;
- 1 shop on the Ground Floor of the Building with a gross floor area of 2,226 square feet; and
- 7 floors, from 12th to 18th Floors, B to M of the Building with a gross floor area of 101,556 square feet.

#### Rent

The monthly rent for the use of:

- 1 shop on the Ground Floor of the Building and between 12th and 18th Floors, B to M of the Premises is MOP133,800.40 (equivalent to approximately HK\$129,903.30) (or MOP1,605,604.80 (equivalent to approximately HK\$1,558,839.61) per annum); and
- 16 car parks in the basement of the Building is MOP8,000 (equivalent to approximately HK\$7,767) (or MOP96,000 (equivalent to approximately HK\$93,303.88) per annum),

of which such rent payable is exclusive of all management charges paid by the company in charge of the management of the Premises, including electricity, telephone, water, gas, elevators, cleaning services and repairing expenses on common and public areas of the Premises and those related to the security of the Premises.

#### Rent Free Period

There is no rent free period in respect to the rental of the Premises.

#### Term of Tenancy

The term of the tenancy under the Tenancy Agreement is 24 months commencing on 1 August, 2004 and such term may be extended for further periods to be mutually agreed between Air Macau and the Landlords provided that Air Macau serves a notice in writing of its intention to renew the Tenancy Agreement not less than 3 months before the expiration of the existing tenancy term.

Upon renewal of the Tenancy Agreement, Air Macau and the Landlords will enter into a new tenancy agreement.

#### Proposed Cap

Based on the terms of the Tenancy Agreement, the Directors propose that the maximum annual aggregate rent contemplated under the Tenancy Agreement shall be MOP1,701,604.80 (equivalent to approximately HK\$1,652,043.50).

#### Connection between the parties

Each of the Landlords is an indirect wholly owned subsidiary of CNAH. Air China, a non wholly-owned subsidiary of CNAH, is the controlling shareholder of the Company by beneficially holding approximately 69% of the existing issued share capital of the Company. Each of the Landlords is therefore an associate of Air China and is a connected person under Chapter 14A of the Listing Rules. Since Air Macau is a non wholly-owned subsidiary of the Company, the Tenancy Agreement entered into between Air Macau and the Landlords is regarded as a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

#### REASONS FOR ENTERING INTO THE TENANCY AGREEMENT

In order to provide a more modern office environment to its staff for the upcoming opportunities in Macau as well as to take advantage of the favourable rent charged by the Landlords, Air Macau negotiated with the Landlords to lease Premises.

The Tenancy Agreement was negotiated on an arm's length basis between Air Macau and the Landlords. DTZ Debenham Tie Leung, a firm of independent professional valuers, has confirmed in their letter dated 3 August, 2004 that the monthly rent payable under the Tenancy Agreement is below market levels.

The Directors (including the independent non-executive Directors) considered that the Tenancy Agreement has been entered into on normal commercial terms which are determined on an arm's length basis and are fair and reasonable so far as the Company and its shareholders are concerned.

#### REASONS FOR THE DELAY IN DISCLOSURE

The Directors explain that the delay in disclosing details of the Tenancy Agreement is due to a miscalculation of the relevant percentage ratios (as defined in the Listing Rules) by the Company when the Tenancy Agreement was entered into by Air Macau. The Company only discovered that the Tenancy Agreement constitutes a continuing connected transaction that is subject to the reporting and announcement requirements when the management of the Company carried out their administrative review on annual operations and recalculate the relevant percentage ratios in March 2005. Accordingly, the delay of disclosure is directly due to an oversight by the Company and the Board and such delay could be avoided in the future by means of the management of the Company exercising better scrutiny over the calculation of the relevant percentage ratios and by ensuring that relevant professional advisers be consulted whenever there is a transaction, the nature and the size of which may constitute it a notifiable transaction under Chapter 14 or 14A of the Listing Rules.

#### BUSINESS OF THE GROUP

The Group is principally engaged in the provision of air transportation services through Dragonair and Air Macau, airport ground handling services and logistics services. For the two years ended 31 December, 2002 and 2003, the Group

recorded an audited profit attributable to shareholders of the Company of approximately HK\$317,417,000 and an audited loss attributable to shareholders of the Company of approximately HK\$18,747,000 respectively. The audited net asset value of the Group as at 31 December, 2003 was approximately HK\$2,642,331,000.

#### INFORMATION ON THE LANDLORDS

The Landlords are investment holding companies and their sole asset is the Premises.

#### GENERAL

The Company's failure to issue a public announcement concerning the continuing connected transaction has constituted a breach of Rule 14A.34 of the Listing Rules. The transaction contemplated under the Tenancy Agreement will be subject to the annual review requirement and the reporting requirement under Rules 14A.37 to 14A.41 and Rules 14A.45 and 14A.46 of the Listing Rules.

The Stock Exchange has indicated to the Company that it reserves the rights to take appropriate action against the Company and the Directors in respect of such breach of the Listing Rules.

#### DEFINITIONS

"Air China"	Air China Limited, a joint stock limited company incorporated under the laws of the PRC with limited liability, whose H shares are listed on the Stock Exchange
"Air Macau"	Air Macau Company Limited, a company incorporated under the laws of Macau with limited liability and a 51% indirectly owned subsidiary of the Company
"Board"	the board of Directors
"Building"	398 Alameda Dr. Carlos D'Assumpcao, Macau
"CNAH"	China National Aviation Holding Company (中國航空集團公司), a state-owned enterprise incorporated under the laws of the PRC
"Company"	China National Aviation Company Limited, a company incorporated under the laws of Hong Kong with limited liability, whose shares are listed on the Stock Exchange
"Directors"	the directors of the Company
"Dragonair"	Hong Kong Dragon Airlines Limited, an airline operator incorporated in Hong Kong with limited liability and a 43.29% owned associated company of the Company
"Easy Advance"	Easy Advance Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CNAH
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Landlords"	Easy Advance and Wise Advice
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Premises"	the premises leased under the tenancy agreement as set out in the paragraph headed "Premises Leased" in this announcement
"PRC"	The People's Republic of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tenancy Agreement"	the tenancy agreement dated 26 July, 2004 entered into between Air Macau and the Landlords pursuant to which the Landlords agreed to lease the Premises to Air Macau
"Wise Advice"	Wise Advice Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CNAH
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"MOP"	Macau Patacas, the lawful currency of Macau

In this announcement, except as otherwise indicated, MOP has been translated into HK\$ at the rate of HK\$1.00 = MOP1.03 for reference purpose only.

By Order of the Board  
Kong Dong  
Chairman

Hong Kong, 21 March, 2005

As at the date of this announcement, the executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Tsang Hing Kwong, Thomas, Gu Tiefert and Zhao Xiaohang and the independent non-executive Directors are Messrs. Lok Kung Nam, Hu Hung Lick, Henry, Ho Tsu Kwok, Charles, Li Kwok Heem, John and Chan Ching Har, Eliza.